

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 AID-05 CEA-01 CIAE-00 COME-00

EB-07 FRB-03 INR-07 NSAE-00 CIEP-01 SP-02 STR-04

TRSE-00 LAB-04 SIL-01 SAM-01 OMB-01 SS-15 NSC-05 L-03

XMB-02 IO-10 /085 W  
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P R 141538Z AUG 75

FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC PRIORITY 9457

AMEMBASSY PARIS

AMEMBASSY THE HAGUE

LIMITED OFFICIAL USE SECTION 1 OF 2 EC BRUSSELS 07298

E.O. 11652: N/A

TAGS: EFIN, EEC

SUBJECT: FRENCH TEXT ON RETURN TO SYSTEM OF STABLE PAR VALUES

REFS: A. EC BRUSSELS 6135

B. EC BRUSSELS 6332

C. EC BRUSSELS 6455

D. EC BRUSSELS 6899

E. THE HAGUE 4076

1. THE GOF REPRESENTATIVES TO THE EC MONETARY COMMITTEE ON AUGUST 11 PRESENTED A PAPER ENTITLED "SCHEME OF A GRADUAL RETURN TO A SYSTEM OF STABLE BUT ADJUSTABLE PAR VALUES." (THE DISCUSSION IN THE MONETARY COMMITTEE IS REPORTED ON BY REF E AND A SEPTTEL FROM THIS MISSION.) THE MISSION HAS OBTAINED A COPY OF THE FRENCH PAPER, AND ITS TEXT FOLLOWS BELOW. THE PAPER WAS OBTAINED ON A CONFIDENTIAL BASIS AND US POSSESSION OF IT SHOULD NOT BE REVEALED.

2. BEGIN TEXT:

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SCHEME OF A GRADUAL RETURN TO A

SYSTEM OF STABLE BUT ADJUSTABLE PAR VALUES

1. IT IS OBVIOUS THAT THE ADOPTION OF THE AMENDED IMF ARTICLES CANNOT COINCIDE WITH AN IMMEDIATE AND WORLD-WIDE RETURN TO A SYSTEM OF STABLE BUT ADJUSTABLE PAR VALUES. IT MUST NEVERTHELESS BE PRECISELY STATED THAT THE INTERNATIONAL MONETARY REFORM, VIEWED AS A LONG AND EXACTING WORK, MUST LEAD TO THE FINAL ESTABLISHMENT OF SUCH A SYSTEM.

2. IN THE TRANSITORY PERIOD OF GRADUAL IMPLEMENTATION OF THE REFORM, INDUSTRIAL COUNTRIES SHALL ASSUME PARTICULAR RESPONSIBILITIES; THESE SHOULD BE DEFINED, AND GIVE RISE TO PERMANENT CONCERTATION, WITHIN AN APPROPRIATE BODY WHOSE SHAPE COULD BE SIMILAR TO THAT OF THE GROUP OF TEN. SUCH A COLLABORATION, BASED ON PRECISE UNDERTAKINGS, WOULD HELP GAINING CREDIT THE WILL, OFFICIALLY EXPRESSED IN THE AMENDED ARTICLES, TO REESTABLISH A SYSTEM OF STABLE BUT ADJUSTABLE PAR VALUES. THIS COLLABORATION SHOULD BE EXTENDED TO THE REDUCTION OF THE ROLE OF GOLD AND OF RESERVE CURRENCIES AS SETTLEMENT ASSETS.

3. THE TRANSITORY PERIOD WOULD BE MARKED BY THE FLEXIBILITY OF THE EXCHANGE RATES REGIME, BY THE WEAKNESS OF LEGAL CONSTRAINTS BUT BY MORAL CONSTRAINTS GROWING STEP BY STEP IN ORDER TO SUBSTITUTE GRADUALLY AN ORDERLY SYSTEM TO THE STATE OF CONFUSION WE ARE NOWADAYS FACING.

4. IN A FIRST PHASE WHICH SHOULD LAST AS SHORT A TIME AS POSSIBLE (IT COULD COME TO AN END BY THE BEGINNING OF 1976) EACH COUNTRY COULD:  
--EITHER LET ITS CURRENCY FLOAT INDIVIDUALLY,  
--EITHER PEG IT AT A CENTRAL VALUE, NOTIFIED TO THE IMF, IN ORDER TO ESTABLISH OR MAINTAIN MONETARY SETS MARKED BY EXCHANGE STABILITY.

THE EXCHANGE SYSTEM OF EACH COUNTRY WOULD REMAIN SUBJECT TO THE SURVEILLANCE OF THE FUND LIMITED OFFICIAL USE

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AND SHOULD BE CONSISTENT WITH THE RULES SET FORTH IN THE FUTURE ARTICLE IV SECTION 1.

5. A SECOND PHASE WOULD BE ENTERED UPON, THROUGH A DECISION TAKEN BY THE MAJORITY OF COUNTRIES PARTICIPATING IN THE SCHEME.

THE NOTIFICATION OF A CENTRAL VALUE WOULD THEN

BECOME THE COMMON RULE, WITH A VIEW TO SET UP A LIMITED NUMBER OF STABILITY POLES AND TO REDUCE AS FAR AS POSSIBLE THE NUMBER OF UNSTABLE EXCHANGE RATES. AMONG COUNTRIES MAINTAINING STABLE EXCHANGE RATES, BASED ON CENTRAL VALUES NOTIFIED TO THE IMF, PRECISE RULES FOR FLUCTUATION SHOULD BE DETERMINED AND COMPLIED WITH (IN PARTICULAR FOR THE SETTING UP OF A REASONABLE MARGIN).

IF ONE COUNTRY MET WITH ANY DIFFICULTY IN PEGGING ITS CURRENCY WITH THE CURRENCY OF WHICHEVER PARTNER COUNTRY, IT WOULD BE ALLOWED, AFTER DUE CONSULTATION, TO KEEP FLOATING INDIVIDUALLY. YET IT WOULD THEN HAVE TO COMPLY WITH PREDETERMINED BANDS OF FLUCTUATION IN RELATION TO THE CURRENCIES OF THE STABLE MONETARY SETS, SO THAT A CERTAIN EXTERNAL CONSTRAINT WOULD LIE EQUALLY UPON THE COUNTRIES ADHERING TO SUCH SETS AND UPON THOSE WHICH WOULD NOT HAVE AT THEIR CONVENIENCE TO ACCEPT THE CONSEQUENTIAL DISCIPLINE.

6. THE SECOND PHASE WOULD ALSO CALL FOR A CONFIDENTIAL NEGOTIATION, OF THE SAME KIND AS THE ONE WHICH LED IN OTHER TIMES TO THE SMITHSONIAN AGREEMENT (DECEMBER 1971). IT WOULD BE A MATTER OF DETERMINING THROUGH COLLECTIVE DECISIONS, AND OF KEEPING UNDER REVIEW, CENTRAL RATES BETWEEN STABLE MONETARY SETS AND BETWEEN THESE AND INDIVIDUALLY FLOATING CURRENCIES. THE ACTUAL EXCHANGE RATES SHOULD, THROUGH APPROPRIATE MECHANISMS, KEEP NEAR THE CENTRAL RATES WITHIN A MARGIN WHICH COULD INITIALLY BE SET UP AT 5 PERCENT.

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FM USMISSION EC BRUSSELS  
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7. ONE OR TWO YEARS AFTER THE IMPLEMENTATION OF SUCH ARRANGEMENTS, THE PARTICIPATING COUNTRIES WOULD EXAMINE THE POSSIBILITY OF DEFINITELY REESTABLISHING A WORLD-WIDE SYSTEM OF STABLE BUT ADJUSTABLE PAR VALUES.

SUCH A SYSTEM WOULD IMPLY THE FOLLOWING FEATURES:

--OBLIGATION TO PROPOSE A PAR VALUE AND TO COMPLY WITH A MAXIMUM MARGIN OF FLUCTUATION (2.25 PERCENT FOR EXAMPLE);

--POSSIBILITY NOT TO PROPOSE A PAR VALUE SUBJECT TO THE DUE APPROVAL OF THE FUND;

--POSSIBILITY TO RESORT TO FLOATING IF THE FUND SO AUTHORIZES.

IT WOULD ALSO BE NECESSARY TO WARRANT THE ADJUSTABILITY OF PAR VALUES.

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TO THIS END MEMBER COUNTRIES SHOULD UNDERTAKE TO PROPOSE A CHANGE IN THE PAR VALUE OF THEIR CURRENCIES IN THE CASE THEY WOULD MEET A FUNDAMENTAL DISEQUILIBRIUM THAT COULD NOT BE DEALT WITH IN TIME WITHOUT AN EXCHANGE RATE ADJUSTMENT; THEY SHOULD ALSO UNDERTAKE NOT TO PROPOSE A CHANGE IN THE PAR VALUE OF THEIR CURRENCIES EXCEPT TO CORRECT, OR PREVENT THE EMERGENCE OF, A FUNDAMENTAL DISEQUILIBRIUM.

WHEN A CHANGE IS PROPOSED, THE FUND SHOULD TAKE INTO ACCOUNT SOME INDICATORS, BOTH EXTERNAL AND INTERNAL (SITUATION OF RESERVES, BALANCE OF PAYMENTS, ACTIVITY AND EMPLOYMENT LEVELS, ETC), WHICH COULD TRIGGER ITS AUTOMATIC APPROVAL; THESE INDICATORS WOULD ALSO HELP MEMBER COUNTRIES IN DETERMINING OBJECTIVELY THE OPTIMUM PAR VALUE FOR THEIR CURRENCIES.

FINALLY ONE COULD ENVISAGE AUTOMATIC APPROVAL  
BY THE FUND OF SUCH CHANGES IN PAR VALUE THAT WOULD  
NOT EXCEED SOME LIMITS SET IN ADVANCE.

END TEXT. MORRIS

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